

**REPORT OF THE AUDIT OF THE
MCCREARY COUNTY
SHERIFF**

**For The Year Ended
December 31, 2008**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MCCREARY COUNTY SHERIFF

**For The Year Ended
December 31, 2008**

The Auditor of Public Accounts has completed the McCreary County Sheriff's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$6,083 from the prior year, resulting in excess fees of \$730 as of December 31, 2008. Revenues increased by \$167,935 from the prior year and expenditures increased by \$174,018.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over All Accounting Functions

Deposits:

The Sheriff's deposits as of November 6, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$1,182,982

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Blaine Phillips, McCreary County Judge/Executive
The Honorable Gus H. Skinner, Jr., McCreary County Sheriff
Members of the McCreary County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of McCreary County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 19, 2010 on our consideration of the McCreary County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Blaine Phillips, McCreary County Judge/Executive
The Honorable Gus H. Skinner, Jr., McCreary County Sheriff
Members of the McCreary County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over All Accounting Functions

This report is intended solely for the information and use of the Sheriff and Fiscal Court of McCreary County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

January 19, 2010

MCCREARY COUNTY
GUS H. SKINNER, JR., SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

Federal Grants		\$	7,820
Federal Fees For Services			35,925
State Grants			8,750
State - Kentucky Law Enforcement Foundation Program Fund			14,378
State Fees For Services:			
House Bill 452	\$	11,508	
Fee Claims		69,031	
Cabinet For Health And Family Services		<u>240</u>	80,779
Circuit Court Clerk:			9,751
Fiscal Court			9,031
County Clerk - Delinquent Taxes			4,370
Commission On Taxes Collected			116,194
Fees Collected For Services:			
Auto Inspections		11,130	
Accident and Police Reports		524	
Serving Papers		21,995	
Carrying Concealed Deadly Weapon Permits		3,935	
10% Add-On Fees		36,489	
Advertising Fees		<u>2,745</u>	76,818
Other:			
Telecommunications Tax		1,083	
Adanta Prisoner Transport		14,407	
Interim Sheriff Fee Transfer		9,805	
Insurance Receipts		4,515	
Miscellaneous		<u>3,772</u>	33,582

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
 GUS H. SKINNER, JR., SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Revenues (Continued)

Interest Earned		\$	1,226
Borrowed Money:			
State Advancement (See Note 10)	\$	50,000	
Bank Note		12,139	62,139
			<hr/>
Total Revenues			460,763

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	33,440
Bailiff Salaries		56,535
Other Salaries		28,316
KLEFPF		12,003
Overtime		1,106

Employee Benefits-

Employer's Share Social Security		15,027
Employer's Share Retirement		25,146
Worker's Compensation		17,039
Employer Paid Health Insurance		5,762

Materials and Supplies-

Office Materials and Supplies		1,839
Uniforms		8,907

Auto Expense-

Gasoline		32,929
Maintenance and Repairs		9,536
Radios		9,760

Other Charges-

Conventions and Travel		2,423
Dues		377
Postage		4,128
Training		1,725
Bond		407
Carrying Concealed Deadly Weapon Permits		1,775
Miscellaneous		1,264

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
 GUS H. SKINNER, JR., SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Capital Outlay-		
Vehicles	\$ 54,171	\$ 323,615
Debt Service:		
State Advancement (See Note 10)	51,898	
Bank Note Principal	12,139	
Bank Note Interest	122	64,159
Total Expenditures		\$ 387,774
Net Revenues		72,989
Less: Statutory Maximum		70,496
Excess Fees		2,493
Less: Training Incentive Benefit		1,763
Balance Due Fiscal Court at Completion of Audit *		\$ 730

* - On February 10, 2009, the Fiscal Court voted to allow the Sheriff to transfer this amount to the 2009 Sheriff's Fee Account.

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MCCREARY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2008
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The McCreary County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The McCreary County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 6, 2008, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$1,182,982

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 4. Drug Control Account

The McCreary County Sheriff maintains a drug control account. Any restrictions on the use of these funds are established by court order on an individual cash basis. The balance as of January 1, 2008 was \$5,200, receipts and expenditures were \$305 and \$5,217, respectively, and the December 31, 2008 balance was \$288.

Note 5. Federal Asset Forfeiture Account

The McCreary County Sheriff maintains a drug control account. These funds may be used to support community policing activities, training and law enforcement operations calculated to result in further seizures and forfeitures. The balance as of January 1, 2008 was \$11, receipts during the year were \$4,434, and the December 31, 2008 balance was \$4,445.

Note 6. Federal Service Agreement

The McCreary County Sheriff received reimbursement for wages from the United States Department of Agriculture for patrol services in the Daniel Boone National Forest. Total reimbursements for this agreement cannot exceed \$8,100. During 2008, the Sheriff was reimbursed \$7,820 for wages.

Note 7. Federal Grant

The McCreary County Sheriff received a federal grant from the United States Department of Agriculture for the purchase of new patrol vehicles. Total receipts from the grant totaled \$35,925, and \$35,925 was expended for the purchase of two new patrol vehicles.

Note 8. State Grant – Justice and Public Safety Cabinet

The McCreary County Sheriff received a state grant from the Justice and Public Safety Cabinet for the purchase of law enforcement communication equipment. Receipts from the grant totaled \$7,500, and \$7,500 was expended for the purchase of new police radios for official use.

Note 9. State Grant – Kentucky Transportation Cabinet

The McCreary County Sheriff received a state grant from the Kentucky Transportation Cabinet for the Click It or Ticket Enforcement Mobilization. The grant receipts were for personnel services. Receipts from the grant totaled \$1,250.

Note 10. State Advancement

The McCreary County Sheriff assumed a state advancement debt from the Interim Sheriff on February 20, 2007. As of January 1, 2008, the outstanding balance owed for the Interim Sheriff's state advancement was \$1,898. As of December 31, 2008, all of the interim Sheriff's state advancement debt was repaid.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Blaine Phillips, McCreary County Judge/Executive
The Honorable Gus H. Skinner, Jr., McCreary County Sheriff
Members of the McCreary County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the McCreary County Sheriff for the year ended December 31, 2008, and have issued our report thereon dated January 19, 2010. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McCreary County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over All Accounting Functions



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McCreary County Sheriff's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The McCreary County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the McCreary County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

January 19, 2010

COMMENT AND RECOMMENDATION

MCCREARY COUNTY
GUS H. SKINNER, JR., SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS

The Sheriff's Office Lacks Adequate Segregation Of Duties Over All Accounting Functions

A lack of adequate segregation of duties exists over all accounting functions. During our review of internal controls, we noted the Sheriff's bookkeeper is responsible for opening incoming mail, receiving and recording cash, preparing of bank deposits, preparing the daily checkout sheets, posting to the receipts and disbursements ledgers, and preparing financial reports.

Limited budget places restrictions on the number of employees the Sheriff can hire. When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties.

A segregation of duties over various accounting functions, such as opening mail, recording cash, preparing bank deposits, posting transactions to ledgers, and preparing financial reports or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties involving the opening of mail, depositing of cash, posting of transactions to the ledgers, and preparing financial reports. If, due to a limited number of staff, that is not feasible, strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could provide this oversight. If the Sheriff does implement compensating controls, these should be noted on appropriate source documentation.

Sheriff's Response: "OK"

